

**STATEMENT OF MICHAEL A. DEIHL
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**TESTIMONY
BEFORE THE
SUBCOMMITTEE ON WATER AND POWER
COMMITTEE ON RESOURCES
UNITED STATES HOUSE OF REPRESENTATIVES**

**THE POWER MARKETING ADMINISTRATIONS'
ROLE IN BRINGING OUR NATIONWIDE ELECTRICITY
TRANSMISSION SYSTEM INTO THE 21ST CENTURY**

March 15, 2005

Mr. Chairman and members of the Water and Power Subcommittee, I am Michael Deihl, Administrator of Southwestern Power Administration (Southwestern). I appreciate the opportunity to present an overview of Southwestern's Fiscal Year 2006 budget request.

INTRODUCTION

Southwestern's Fiscal Year 2006 Congressional Budget request presents new and innovative approaches allowing Southwestern to meet the challenges of today and to ensure viability for the future. The new and innovative approaches include two new funding mechanisms and a proposal to transition from cost-based to market-based rates. These approaches enable Southwestern to operate in a business-like manner, which assures power system reliability and maximizes the use of Federal assets to repay the American taxpayers' investments allocated to power (principal and interest), as well as operation and maintenance costs of the Southwestern Federal power system.

PROFILE OF SOUTHWESTERN POWER ADMINISTRATION

Southwestern markets and delivers all available Federal hydroelectric power from 24 U.S. Army Corps of Engineers' (Corps) multi-purpose projects and participates with other water resource users in an effort to balance diverse interests with power needs. Southwestern operates and maintains 1,380 miles of high-voltage transmission line, 24 substations, and 47 microwave and VHF radio sites. Southwestern's Headquarters is in Tulsa, Oklahoma; the Dispatch Center is in Springfield, Missouri; and power system maintenance crews are based in Jonesboro, Arkansas; Gore, Oklahoma; and Springfield, Missouri. In Southwestern's region, Federal hydropower is distributed to nearly seven million end users in a six-state area: Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas.

ACCOMPLISHMENTS

Southwestern's program goal is to provide the benefits of Federal power to customers by selling and reliably delivering power from Federal multipurpose hydroelectric dams at rates that produce revenues sufficient to repay the American taxpayers' investments allocated to power (principal and interest), as well as operation and maintenance costs of the Southwestern Federal power system. In order to achieve this program goal, Southwestern completed the following significant accomplishments in Fiscal Year 2004:

- Southwestern marketed approximately 5.2 billion kilowatt-hours of energy and transmission services that generated revenues of \$110 million, contingent on final audited financial statements.
- Southwestern has repaid approximately 49 percent of the \$1.1 billion in capital investments attributable to Southwestern's activities. All required capital investment payments have been paid in full and on time.
- Southwestern also has exceeded the North American Electric Reliability Council control compliance ratings for power system operations.

- Southwestern incurred a recordable accident frequency rate of only 2.6 per 200,000 hours worked compared to the industry rate of 3.7.
- Southwestern has the capability to provide regional power restoration assistance to other non-hydropower generation sources during outage emergencies.

PROGRAM PERFORMANCE

Southwestern has integrated the principles of the President's Management Agenda into its existing operations to be even more effective and efficient. The President's Management Agenda includes five key initiatives: Human Capital, Competitive Sourcing, Improved Financial Performance, E-Government, and Budget and Performance Integration. During Fiscal Year 2004, Southwestern's performance excelled, enabling Southwestern to achieve a "Green" rating on each of the five President's Management Agenda initiatives. Southwestern's accomplishments during Fiscal Year 2004 include:

- Developed and published a Human Capital Management Plan;
- Updated its Workforce Restructuring Plan;
- Implemented a Management Succession Plan;
- Linked employee pay with performance;
- Linked budget and performance;
- Certified and accredited Southwestern's major applications in accordance with the Federal Information Security Management Act;
- Participated in the Federal Enterprise Architecture and updated a Cyber Security Program Plan; and
- Upgraded the Oracle Federal financial accounting system.

Southwestern participated in the Program Assessment Rating Tool (PART) during the Fiscal Year 2004 budget cycle. As one of the first participants in the Office of Management and Budget's (OMB) PART, Southwestern scored "Moderately Effective." OMB stated that Southwestern had "inadequate long- and short-term goals, measures, and targets, particularly efficiency measures." In coordination with OMB, Southwestern has established outcome- and output-oriented goals including efficiency measures, acceptable to both OMB and Southwestern. These agreed upon performance goals and targets, reflected in Fiscal Year 2006 budget, provide a strong link to the budget request and are expected to improve Southwestern's PART scores.

BUDGET HIGHLIGHTS

One new and innovative approach introduced by the Administration for Fiscal Year 2006, and thereafter, "improves the performance of the Power Marketing Administrations by removing unnecessary Government intervention and allowing the Power Marketing Administrations to operate in a more business-like, efficient manner."¹ This approach is the concept of a "net zero

¹ The FY 2006 President's Budget Request, page 116.

appropriation” for Operations and Maintenance and Program Direction. Southwestern will recover the full cost of these subprograms through receipts collected from the sale of Federal power and related services. The receipts will be credited to the U.S. Treasury as a direct offset to the majority of Southwestern’s appropriation, resulting in a net appropriation of \$3.2 million for construction activities. This will enable Southwestern to fund critical program needs while meeting the National Energy Policy’s reliability and security requirements. This approach also ensures continued Congressional oversight through the normal appropriations process.

Southwestern’s budget request includes \$10.6 million for the Purchase Power and Wheeling subprogram. Of this, \$1.2 million will be funded through use of Federal power receipts with the remainder funded through alternative financing arrangements, including net billing, bill crediting, and reimbursable authority or customer advances, and other operational arrangements with customers. Southwestern’s power sales contracts provide for a limited amount of peaking power per year, representing only a small portion of its customers’ firm load requirements. The customers provide their own resources and/or purchases for the remainder of their firm loads. Power purchases are blended with the available Federal hydroelectric power and energy to make a more beneficial and reliable product while assuring repayment of the Federal investment plus interest.

In Fiscal Year 2006, and thereafter, the Administration proposes to fund the Corps’ power-related operation and maintenance costs in Southwestern’s service area from receipts derived from the sale of Federal power and related services rather than through annual appropriations, since such costs are fully recovered in the rates Southwestern’s customers pay. Consequently, the result would be a more reliable Federal generating resource. Under this funding mechanism, Congress would continue to have full oversight of the Corps’ operation and maintenance costs on an annual basis.

Also included in the Fiscal Year 2006 budget request is the Administration’s proposal to change the Power Marketing Administrations’ rate structures from cost-based to market-based. This proposal gradually increases the Power Marketing Administrations’ wholesale power rates to the levels other companies charge for wholesale power. The Power Marketing Administrations’ electricity rates will increase at no more than 20 percent per year until market-based rates are reached.

FISCAL YEAR 2006 BUDGET REQUEST

Funding Profile by Subprogram

(dollars in thousands)

	FY 2004 Comparable Appropriation	FY 2005 Original Appropriation	FY 2005 Adjustments	FY 2005 Comparable Appropriation	FY 2006 Request
Operation and Maintenance					
Program Direction.....	19,092	19,324	-155	19,169	19,958
Operations and Maintenance.....	4,635	4,676	-37	4,639	7,042
Construction.....	4,704	5,352	-43	5,309	3,166
Purchased Power and Wheeling.....	1,800	2,900	0	2,900	1,235
Subtotal, Operation and Maintenance	30,231	32,252	-235	32,017	31,401
Offsetting Collections, Program Direction.....	0	0	0	0	-19,958
Offsetting Collections, O&M.....	0	0	0	0	-7,042
Offsetting Collections, PPW	-1,512	-2,900	0	-2,900	-1,235
Offsetting Collections, PPW (P.L. 106-377).....	-288	0	0	0	0
Total, Operation and Maintenance	28,431	29,352	-235	29,117	3,166

Southwestern's Fiscal Year 2006 budget request provides for maintenance, additions, replacements, and interconnections assuring a dependable and reliable federal power system, which is an integral part of the Nation's electrical grid. Southwestern's program level is approximately \$41 million, of which only \$3.2 million represents actual budget authority. The decrease in Southwestern's budget authority reflects the proposal of "net zero" appropriations. However, Southwestern's overall program remains virtually constant allowing Southwestern to maintain its aging transmission system while meeting the demands of increased power loads and alleviating power flow constraints.

In support of the Administration's National Energy Policy goals and transmission open access, Southwestern continues to participate in the regional electric reliability council and the regional transmission organization (RTO) development process and fully supports its efforts as a reliability and security coordinator for the southwest region. Southwestern chairs a Black Start Task Force to establish policies and procedures for regional utility system operators to use in coordinating power restoration of non-hydropower generation sources in the event of outage emergencies. Participation in future transmission system projects, while improving reliability, will depend on greater use of non-Federal reimbursable authority for facility improvements, interconnections, and maintenance required by the security coordinator of the RTO.

As a result of Presidential Decision Directive 63, Critical Infrastructure Protection, Southwestern has designated energy security as a priority. Southwestern completed an evaluation of its system risks and will complete modifications identified during the assessment by the end of the fiscal year. Southwestern has taken significant physical and cyber security precautions to safeguard its employees and infrastructure.

CONCLUSION

In conclusion, Southwestern's Fiscal Year 2006 budget request includes new and innovative approaches that will allow Southwestern to operate in a more business-like manner while supporting transmission and generation infrastructure development. As the demand for the transmission of power increases on the Nation's power systems, the need to maintain, replace, and provide for additions and interconnections on the Federal power system is critical in assuring reliable delivery. Southwestern will continue to examine its overall business strategy, making the needed improvements necessary to ensure reliability of the Federal power system.

Mr. Chairman, this concludes my testimony. I would be pleased to address any questions the Subcommittee may have.